ECONOMIC COMMENTARY

How Alberta's Consumers are Faring in the Current Economic Slowdown – an Update

November 22, 2016

Highlights:

The sharp deterioration in crude oil prices of the past two years has not only had impacts on Alberta's business sector and on government finances, but is also affecting Alberta's consumers as they are less confident about their job situation and are cutting back on their household purchases as a result.

Alberta Government

The Alberta economy is currently in recession because of the slump in oil prices. As revenues of oil and gas extraction firms fall due to lower energy prices cost cutting measures are being introduced that affect both capital spending (such as reduced spending on drilling and exploration) and operational spending (recent lay-offs). A number of Alberta's economic drivers, such as investment and exports, are clearly impacted by the large price declines, and it has also had an impact on the labour situation as the number of unemployed people more than doubled between the end of 2014 and October of this year. In this commentary we will look at how Alberta's consumers are handling these setbacks by examining a number of indicators for the consumer sector, such as bankruptcies, retail sales, motor vehicle sales, housing starts, MLS resales, and especially consumer confidence. This is the third commentary on the impacts of lower oil prices on Alberta consumers.

Source: Conference Board of Canada

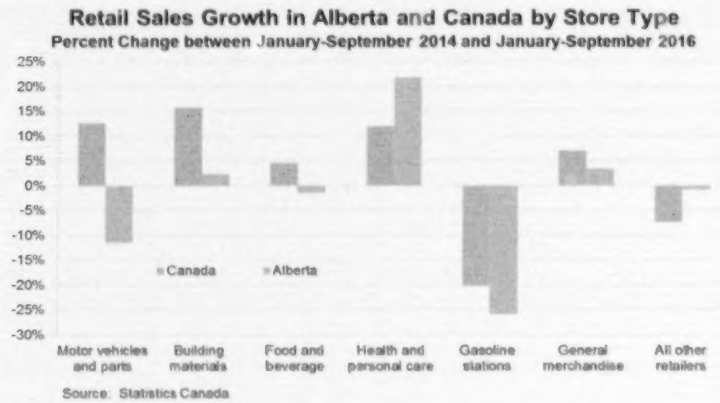
The Index of Consumer Confidence that the Conference Board of Canada publishes on a monthly basis suggests that Alberta's consumers remain concerned about what's still in store for them. Between September 2014, when the index reached a recent high, and February of this year the Alberta index fell by 69%, a drop that is actually larger than the decline that Alberta's consumer confidence faced in 2008-2009. Consumer confidence improved somewhat in recent months and reached a 12-month high in July, but has tumbled again since then. The consumer confidence index fell 68% between the start of the recession and October 2016, a larger decline than what was registered during the Great Recession.

In the consumer confidence survey consumers are asked four questions:

- Would you say that your family is better off or worse off financially than six months ago?
- Would you say that your family will be better off, the same or worse off financially six months from now?
- How do you feel the job situation and overall employment will be in this community six months from now?
- Do you feel that right now is a good time or a bad time for the average person to make a major outlay for things such as a home or a car or some other major item?

The percentage of respondents that felt they are now worse off financially than six months ago has risen from 11% in September 2014 to 43% in October 2016. In the summer of 2009, also about 43% felt they were worse off. Looking forward, the percentage that believe they will be worse off financially six months from now rose from 12% in September 2014 to 27% in October, higher than

the 23% share registered during the previous recession. Respondents also remain concerned about their community's job prospects: the share that believes the prospects will be worse six months from now rose from 9% in September 2014 to 67% in December 2015. It now stands at 45%, which is lower than the previous peak of 54% in February 2009. As to the final question about now being a good or bad time to make a major outlay, the percentage that felt now is a bad time for such purchases rose from 12% in the summer of 2014 to a new peak of 71% in October, higher than the previous peak of 46% in December 2008.



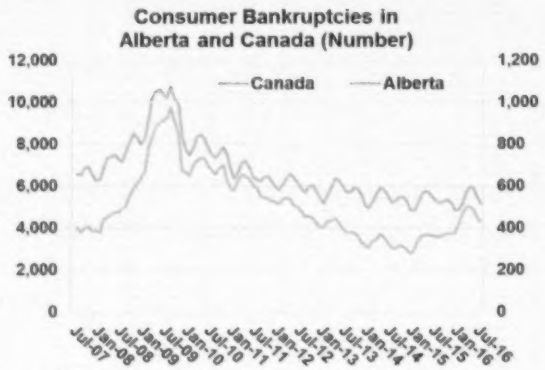
The deterioration in consumer confidence is affecting consumer spending. In Alberta, retail sales have been falling since October 2014 and reached a three-year low in July 2016. During the first nine months of 2016 retail sales were 6.1% lower compared to the same period of 2014. Canadian retail sales rose 5.3% over the same period and Canadian sales excluding Alberta sales rose 7.4%. Alberta retail sales have been weak the past two years due to lower gasoline prices and fewer new motor vehicles being sold. Sales by gasoline stations are 25.9% lower this year than during the first nine months of 2014. When we exclude gasoline sales total retail sales are down 2.6% over the same two-year period. However, lower prices have caused gasoline sales to be much lower in the other provinces as well, declining by 20.2% in Canada. The main reason why Alberta's retail sales performance is so much worse than Canada's is that far fewer new motor vehicles are being sold in Alberta as a result of the job insecurity that many Albertans currently face. The value of sales by motor vehicle and parts dealers (combining new and used vehicles and vehicle parts) are down 11.5% in Alberta over the two-year period but up 12.7% in all of Canada. The number of new vehicles sold has fallen by 9.1% in Alberta so far this year (after an 11.2% decline in 2015), while it rose 4.6% in the rest of Canada on strong sales growth in British Columbia, Ontario and Quebec.

Alberta's housing market has also been impacted by the recession. During the first ten months of 2016, the number of MLS housing resales was 8.3% lower than the number sold in the same period of 2015 after tumbling by 21% in 2015. The average house price is virtually unchanged this year after falling by about 2% in 2015.

New housing starts started to decline in April 2015 (see below chart) and fell by 6.9% between 2014 and 2015. The number of starts is sharply lower this year and declined by 37% during the first ten months compared to the same period of 2015. Multi-family starts, such as apartments and rental condos, have dropped by 43% so far this year (after a 10% drop in 2015), and starts of single-family homes have tumbled 26% this year (after a 26% increase in 2015).

Source: Statistics Canada

So far in the current recession Alberta consumers have not filed for bankruptcy as much as they did during the Great Recession of 2008-2009. In fact, in August Alberta still only accounted for 9% of the total number of consumer bankruptcies in Canada, a share that is only slightly above Alberta's long-run average share. During the first eight months of 2016 there were 3,663 bankruptcies in Alberta, compared with 2,782 during the same period of 2015 and 6,813 during the first eight months of 2009.



Source: Office of the Superintendent of Bankruptcy Canada

In summary, Alberta consumers are quite concerned about the impact that the current recession is having on their financial and job situation. Consumer confidence remains weak this year which is affecting their spending on consumer goods, especially on durable goods such as a home or a new car. However, unlike in 2009, this lack of confidence has not translated as yet into a significant rise in the number of consumer bankruptcies.

Note: monthly statistics for housing starts, retail sales, motor vehicle sales, bankruptcies and MLS sales can be found on the Alberta Economic Dashboard at http://economicdashboard.alberta.ca/